

A public-school teacher can spend an entire career preparing other people for the future while remaining unsure about the retirement form sitting inside the employee-benefits portal. The form may contain the number 403(b), a list of financial companies, several unfamiliar investment names, and a blank asking what percentage of salary should be withheld. Nothing about the number explains that this is a workplace retirement plan created especially for employees of public schools, certain tax-exempt organizations, and particular ministers. It allows eligible workers to direct part of their compensation into individual retirement accounts maintained under the employer's plan. The employer may contribute as well, but it is not required to provide a match merely because the 403(b) exists. For many employees, especially those already covered by a pension, the 403(b) serves as an additional retirement account rather than a replacement for the pension.

The name comes from section 403(b) of the Internal Revenue Code. Older materials often call it a tax-sheltered annuity, abbreviated TSA, because insurance annuity contracts were central to the plan's early structure. That historical name can be misleading today. A 403(b) does not have to hold only an annuity, and choosing the plan does not automatically guarantee retirement income. Depending on the arrangement, the individual account may be an insurance-company annuity contract, a custodial account invested in mutual funds or a group trust, or a retirement-income account established for church employees. The tax shelter comes from the plan's legal treatment; the investment or insurance contract determines how the money behaves after entering it. [IRS Publication 571 explains the permitted 403\(b\) account structures and the employees who may participate.](#)

Eligible employers occupy a particular portion of the economy. Public elementary and secondary schools, state colleges and universities, eligible 501(c)(3) organizations, churches, and certain church-related employers can establish these plans. Hospitals, charities, museums, foundations, and social-service organizations may qualify when they possess the required tax-exempt status. Certain ministers and chaplains can also participate under rules designed for their work. A privately owned business cannot decide to call its retirement plan a 403(b) merely because the owner prefers the name. The employer must belong to a category authorized by the tax code, and the employee must perform eligible service for that organization.

Public-school eligibility is not limited to classroom teachers. Administrators, office employees, custodians, maintenance workers, counselors, librarians, food-service workers, and others involved in the school system's daily operation may be eligible. This matters because 403(b) marketing often speaks directly to teachers, causing other school employees to assume the plan is not meant for them. The employer's written plan determines participation, but 403(b) plans generally follow a universal availability rule. In broad terms, if one eligible employee is permitted to make salary-deferral contributions, the employer must generally extend that opportunity to other eligible employees, subject

to lawful exceptions. Universal availability concerns the right to contribute; it does not necessarily require the employer to give every worker an identical matching contribution.

A 403(b) begins with a salary-reduction agreement. The employee authorizes the employer to remove a percentage or dollar amount from each paycheck and send it to the designated 403(b) account. These employee contributions are called elective deferrals because the worker elects to postpone receiving part of the compensation in cash. If an employee earning \$4,000 per month elects to contribute five percent, the employer sends \$200 to the plan before issuing the remainder of the paycheck. Traditional deferrals generally reduce wages subjected to current federal income tax, although Social Security and Medicare taxes usually still apply. Roth deferrals remain in current taxable income, but qualified future withdrawals can be received free from federal income tax. The employee may often divide contributions between Traditional and Roth sources if the employer's plan offers both.

Enrollment practices differ sharply among employers. One nonprofit may operate the 403(b) through a single recordkeeper with an online enrollment system and a carefully selected fund menu. A school district may instead authorize numerous outside vendors and require the employee to select one before payroll deductions can begin. Another employer may automatically enroll eligible employees at a default percentage unless they decline. The presence of several vendors can look like greater freedom, but it also shifts research responsibility toward the worker. Each company may offer different products, fees, surrender rules, service arrangements, and sales incentives. The school district's willingness to send payroll money to a vendor does not necessarily mean the district has determined that every contract on the list is equally suitable.

The first major investment path is a custodial account holding mutual funds. A custodial account is an arrangement in which an approved financial institution holds assets for the participant under the 403(b) rules. The mutual funds may invest in stocks, bonds, cash instruments, or a mixture of assets. Some menus include low-cost index funds, actively managed funds, target-date funds, or balanced funds. The value rises and falls according to the investments, and no particular retirement balance is promised. The word *custodial* describes who holds and administers the assets; it does not mean the custodian protects the account from market losses.

The second path is an annuity contract issued by an insurance company. An annuity is a contract under which money is paid to an insurer in exchange for accumulation features, future income, guarantees, or some combination of benefits. A fixed annuity may credit interest according to the contract and insurer's guarantees. A variable annuity places money into investment subaccounts whose values fluctuate with the market. An indexed annuity calculates interest according to a formula connected to the movement of a market index, but the owner does not directly receive the index's entire investment return. Each type carries its own limitations, expenses, guarantees, and access rules. Any promise made by the contract depends on the insurance company's claims-paying ability rather than federal deposit insurance.

An annuity inside a 403(b) deserves careful examination because both structures already involve tax-favored retirement treatment. The annuity's tax deferral does not create a second layer of tax deferral beyond what the 403(b) already provides. The annuity may still offer valuable insurance features, such as a lifetime-income option, a guaranteed crediting arrangement, or a death benefit. Those features must be evaluated against their cost and restrictions rather than accepted simply because they sound protective. A worker who needs only diversified investment growth may discover that an insurance contract adds expenses for benefits the worker did not intend to purchase. Another worker may knowingly accept those costs because a particular guarantee meets an important retirement need.

The word guarantee must be read with its conditions attached. A guaranteed interest rate may apply only to a portion of the contract or for a limited period. A lifetime-income benefit may require the owner to follow withdrawal limits and wait until a stated age. A guaranteed withdrawal base may be a bookkeeping figure used to calculate future income rather than cash that can be withdrawn as a lump sum. A death benefit may decline, expire, or cost extra through an insurance rider. A rider is an added contract feature that changes or expands benefits, usually for an additional charge. The proper question is not simply whether the product contains a guarantee, but what is guaranteed, for how long, at what cost, under which conditions, and by whom.

Surrender charges can make a contract expensive to leave. A surrender charge is a fee imposed when the owner withdraws or transfers money during a stated period after purchasing the annuity. The fee may begin at a high percentage and decline gradually over several years. This means a teacher who later discovers a lower-cost vendor might be unable to move the full balance without paying a substantial charge. Some contracts permit limited annual withdrawals without surrender charges, but the exact percentage and conditions vary. Surrender periods can restart or become more complicated when new money enters certain contracts, so the employee must understand whether each payroll contribution receives its own schedule. The Securities and Exchange Commission advises 403(b) participants to examine surrender charges and other restrictions before selecting an investment.

Costs can be scattered across several layers. A mutual fund may charge an expense ratio, the plan or recordkeeper may assess administrative fees, and an annuity may include mortality and expense charges, contract fees, investment-subaccount expenses, rider charges, and surrender costs. A salesperson may receive a commission even when the employee never writes a separate check, because compensation can be built into the product's expenses. A statement showing "no annual account fee" does not prove that the investment is free. One charge may be absent while several others are deducted within the contract. Comparing products requires converting the scattered charges into an understanding of the total annual cost and the amount required to leave the product.

A higher-cost product is not automatically dishonest, and a lower-cost option is not automatically suitable. The real issue is whether the participant understands what is

being purchased and whether the benefits justify the price. A basic index fund may provide broad market exposure at a modest cost but cannot promise a lifetime payment or protect the balance from a market decline. An annuity may provide contractual guarantees but limit liquidity, impose surrender charges, or reduce growth through additional expenses. A target-date fund may handle diversification and rebalancing but still carry market risk and may duplicate other funds already selected. Cost, risk, flexibility, guarantees, and service belong in the same comparison.

The contribution limits resemble those of a 401(k). For 2026, an employee may generally defer up to \$24,500 through Traditional and Roth 403(b) contributions combined, or up to eligible compensation if that amount is lower. A participant age fifty or older by the end of the year may generally contribute an additional \$8,000 if the plan permits catch-up contributions. Someone who attains age sixty, sixty-one, sixty-two, or sixty-three during 2026 may qualify for the higher \$11,250 catch-up limit instead of the ordinary \$8,000 age-based amount. Employer contributions, employee deferrals, and certain other additions are also governed by a broader 2026 annual-additions limit of \$72,000, generally subject to compensation and aggregation rules. These dollar limits change with law and inflation adjustments, while the employer's plan may impose a lower operational limit.

A 403(b) employee may share the \$24,500 elective-deferral limit with contributions made to a 401(k), another 403(b), a SIMPLE plan, or certain other arrangements during the same calendar year. Changing employers does not necessarily produce a new personal limit. If a university employee contributes \$15,000 to a 403(b) and later joins a private employer's 401(k), the employee generally has only the unused portion of the shared annual deferral limit available for the 401(k). Separate employers may not know how much the worker contributed elsewhere, leaving the employee responsible for monitoring the combined amount. A governmental 457(b) operates under a separate deferral limit, which can allow an eligible employee to contribute to both plans without combining their ordinary limits.

The 403(b) contains an unusual feature that does not ordinarily appear in a 401(k): the special 15-year service catch-up. If the plan permits it, an employee who has completed at least fifteen years with the same qualifying organization may be allowed to contribute above the ordinary deferral limit. Eligibility does not automatically provide another \$3,000 every year. The permitted amount is the smallest of three calculations: \$3,000; the unused portion of a \$15,000 lifetime maximum; or a formula based on years of service and prior elective deferrals. Someone who contributed heavily during earlier years may receive little or no amount under the formula. The employer must maintain service and contribution records, making this a plan-administered calculation rather than an amount an employee should guess.

The 15-year catch-up and age-based catch-up can both apply, but the ordering is fixed. Contributions above the ordinary limit are first assigned to the available 15-year catch-up and then to the age-based catch-up. This ordering matters because the 15-year provision

has a lifetime maximum, while the ordinary age catch-up resets annually under the applicable limit. A payroll department that reverses the order can create reporting and contribution errors. Employees who have worked for related organizations, moved among schools, changed from part-time to full-time service, or contributed under older vendors may need the employer to reconstruct accurate records. The IRS explains the 15-year formula, its \$15,000 lifetime ceiling, and how it interacts with the age-based catch-up.

The current Roth catch-up requirement can affect higher-paid participants. Beginning in 2026, a participant whose prior-year Social Security wages from the plan sponsor exceeded \$150,000 generally must make eligible catch-up contributions as Roth contributions when the rule applies. The threshold looks to particular prior-year wages rather than total household income, and administrative details can become complicated when someone changes employers or works for related organizations. The ordinary employee contribution can still be divided according to available Traditional and Roth choices. It is the catch-up portion that receives the mandatory Roth treatment for affected participants.

Employer contributions can take several forms. A nonprofit or school system may provide a dollar-for-dollar match, contribute a percentage of pay, make a nonelective contribution regardless of employee participation, or provide nothing at all. Employer contributions may be subject to a vesting schedule, meaning the employee gains permanent ownership over time, although the employee's own salary deferrals are fully vested. Some workers mistakenly assume the absence of a match makes the 403(b) worthless. A match certainly adds value, but the plan may still provide payroll convenience, tax advantages, higher contribution limits than an IRA, and access to useful institutional investments. Whether those advantages are worthwhile depends heavily on the quality and cost of the available choices.

Many public-school employees also participate in a state pension. The pension and 403(b) do different work. A pension generally uses a formula to promise a monthly benefit based on service and compensation, while the 403(b) produces an individual balance dependent on contributions, investments, fees, and withdrawals. The employee may be able to keep both benefits, and participation in one does not automatically cancel the other. In some jurisdictions, certain public employees do not participate in Social Security through that employment, making the complete retirement-income picture especially important. The employee should identify whether Social Security taxes are being withheld, what the pension formula promises, and what independent role the 403(b) must perform.

Legal protection varies according to the employer. A 403(b) sponsored by a private nonprofit may be covered by the Employee Retirement Income Security Act when the employer exercises enough involvement or makes contributions. Public-school and other governmental plans are generally excluded from ERISA's private-plan rules, as are qualifying nonelecting church plans. Some salary-deferral-only nonprofit arrangements

can also avoid ERISA coverage when they satisfy strict conditions limiting employer involvement. Being outside ERISA does not mean that no law or protection exists; governmental plans may be governed by state statutes, constitutional provisions, contracts, and public-plan rules. It does mean participants should not assume every 403(b) receives the same federal rights and procedures as a private-company 401(k). The Department of Labor explains that governmental and qualifying church plans are generally excluded from ERISA coverage.

Access to the money depends on both federal law and the plan document. A plan may permit distributions after separation from employment, disability, death, attainment of the applicable age, or another authorized event. Traditional distributions are generally taxable as ordinary income, while qualified Roth distributions receive tax-free treatment. An additional ten-percent federal tax may apply to taxable early distributions unless an exception is available. The plan may also permit hardship distributions for qualifying immediate and heavy financial needs. A hardship distribution permanently removes money from the account and cannot be rolled over, even when it qualifies for access.

Participant loans are possible but optional. If the plan allows them, the ordinary federal limit generally restricts borrowing to the lesser of \$50,000 or fifty percent of the vested balance, with a limited \$10,000 rule that a plan may choose to offer. Repayment usually occurs through payroll over no more than five years unless the loan finances a principal residence under qualifying terms. The interest returns to the participant's account, but the borrowed money may miss market growth while outside its former investments. Employment termination can also create repayment or tax complications if an unpaid balance is offset against the account. The presence of a loan feature should be treated as emergency flexibility, not as evidence that retirement money is an inexpensive source of routine financing.

Leaving the employer does not automatically require the account to be cashed out. Depending on the balance, contract, and plan terms, the participant may leave the money where it is, complete a direct rollover to an eligible employer plan or IRA, or transfer the account through an approved 403(b) exchange. A contract exchange moves money from one 403(b) investment provider to another within the employer's program when regulatory and plan requirements are satisfied. The exchange may preserve tax treatment while still triggering a contractual surrender charge. A rollover moves eligible retirement money to another type of qualifying arrangement. Traditional money generally moves to Traditional treatment without current tax, while untaxed money moved into a Roth destination generally creates taxable income.

Old 403(b) contracts can remain attached to former vendors for years. An employee may finish a career with accounts at several insurance companies, mutual-fund custodians, and former employers, each carrying different beneficiary forms and distribution procedures. Consolidation can simplify management, but movement should not occur until surrender charges, guarantees, investment costs, creditor protections, and tax treatment have been compared. A valuable guaranteed rate in an older contract can be

lost through an exchange, while an expensive and restrictive contract can quietly drain money if it remains untouched. Age alone does not tell whether an old contract should stay or go. Its actual terms must be read.

The 403(b) rewards an employee who looks beneath the payroll deduction. Its quality is not determined by the school, hospital, church, or charity printed at the top of the benefits page. It is determined by the employer's contribution, the selected vendor, the investments or insurance guarantees, the total cost, the surrender conditions, and the attention given to the account over time. For the worker who studies those parts, the plan can turn years of service into personally owned retirement wealth. For the worker who signs whatever form is placed in front of them, the same number can conceal a contract that remains misunderstood for an entire career.